A REVIEW OF CITY OF MINNEAPOLIS PROCEDURES AND INTERNAL CONTROLS OVER FUEL PURCHASES, INVENTORY, AND USAGE – MARCH/APRIL 2009

INTERNAL AUDIT CITY OF MINNEAPOLIS ROBERT BJORKLUND, DIRECTOR OF INTERNAL AUDIT

CITY OF MINNEAPOLIS REVIEW OF CITY FUEL PROCEDURES & INTERNAL CONROLS

<u>PURPOSE:</u> To review, analyze and assess the procedures and related internal controls over the City's purchase, storage and usage of fuel.

OBJECTIVE: To determine if current procedures and internal controls are in place, functioning as intended and effective.

SCOPE: Current procedures and processes using selected 2007 and 2008 fuel inventory and usage records.

<u>METHODOLOGY:</u> The initial request for a commodities audit needed to be reduced to a more defined format. After discussions with personnel from the City's Purchasing Department and the State Auditors Office the review was focused on fuel, central stores and equipment.

To further stratify the areas and make it a more workable audit for limited staff, it was determined that the review would be conducted in phases with the initial phase being the fuel review.

CONCLUSIONS & RECOMMENDATIONS:

- The individual departments/divisions obtaining fuel via the "in-house" system should be monitoring/reviewing fuel charges on a monthly basis
- All outside entities purchasing fuel (unleaded, diesel and E-85) and car washes through the City need to have contracts with the City
- Documented standard procedures for the WEX system need to be developed and include the retention of all fuel related receipts and their subsequent review.

BACKGROUND:

This review of fuel (phase one) originated with the Audit Management Committee as a request for a review of commodities. As mentioned, commodities was then "condensed" into the three categories/phases of fuel, central stores and equipment.

During this initial phase Internal Audit (IA) met with numerous Public Works personnel including Gary Dahl, James Patterson, Paul Thompson, Tom Zimmerman as well as Kathy Staehle of Finance.

For purposes of this review we have generally defined commodities as products that we have purchased in bulk and either deliver to a job site or it goes into storage at a predetermined location.

In a conversation with David Ybarra of Purchasing, IA was informed that, with the fluctuation and increases in the price of oil during 2007-2008, the tendency is now to bid this out and have a formal contract – thereby getting a fixed price rather than going with the erratic tendencies of the market. Contracts in general are at the city's discretion, depending on the type of item/commodity.

After reviewing a contract listing provided by Contract Administration in detail with David Ybarra, the perceived status of contracts in late 2008 is as follows:

- 02-00035 heating fuel Midwest Fuels; expired 5/31/08 and now part of C-25401;
- 02-00036 rebid, Bid Publication (BP) 7039 (for E-85 & E 70), last provider was Yocum;
- 02-00038 now part of C-25401 (Hartland);
- 02-00044 Price agreement, not in effect, not used, expired;
- 02-00049 Now C-24412 expired, not being used (Yocum to Hartland);
- C-24412 Bid 4/07, expired 1/25/08, no longer current, new BP 6911 dated 1/08 now C-25402 also under BP 6911, Midwest 7,500 gallons to one site, one delivery;
- C-25401 bid 1/08, BP 6910 Hartland, expires 1/09, also includes Midwest (smaller deliveries).

IA spoke with Bob Mathey, Hartland CFO and Jim Tracy of Midwest Fuels. Midwest Fuels was previously known as Tracy-Tripp when Midwest purchased the Tracy-Tripp name, hence they are currently dba Midwest. Hartland is a sister company with Midland being owned by a holding company (HLM Holding). Midwest handles smaller deliveries (4-5k gallons) with tank wagons; while Hartland has the larger full transport (wholesale) deliveries.

"IN-HOUSE SYSTEM":

There are currently seven fuel locations/13 tanks in the metropolitan area. Their address and estimated overall fuel usage percentage are:

- 1200 Currie (40%)
- 1809 Washington (10%)
- 2710 Pacific (15-20%)
- 6036 Harriet Avenue South (15-20%)
- Park Board (10%)
- Water Fridley (minimal, almost zero)
- Water East Yard (minimal, almost zero)

There are two tanks (1 gas/1 diesel) at all locations except Currie which has a third tank with E-85. Electronic monitoring system with built in monitors, checks for leaks and gives the fluid level to balance against. The tanks are physically staked (Tom Zimmerman, fuel systems aide) periodically to provide an added balance control. During this review IA witnessed and verified the staking of two tanks and subsequent balancing with electronic readings.

In the current fuel process, procurement of fuel is recorded within the City's COMPASS system however, inventories are not maintained in COMPASS but rather in the new M-5 system (aka M-5 Maximus Fleet Focus system) acquired from a private vendor. M-5 was implemented at the beginning of 2008, with the previous M-4 system having been in use an estimated 10 years. Others who use this fuel (and are then billed back for that usage), besides the individual City of Minneapolis departments are Hennepin County, City of Hutchinson, City of Richfield (Fire), Xcel Energy fleet service, Library, Head Start, and the Minneapolis School Board. IA was informed the City's only contract is with Hennepin County, although a finalized version of that document could not be located. Annual purchases ranged from \$322 to over \$143,500 for the other entities.

In 2008, over 1,082,000 gallons of regular unleaded were used; nearly 661,000 gallons of diesel, and over 57,000 gallons of E-85. Deliveries are made to all locations with the exception of the two water locations, which get in-house deliveries from Currie.

From the Currie location, fuel orders originate in the Distribution Center at the request of the Fuel Aide, Park Board personnel, FSD fuel truck driver and/or foreman. To give an overview, the vendor delivers a load with the fuel vendor pre and post sticking the fuel tank with information written or stapled to the shipping paperwork. Paul Thompson (City Systems Integrator) matches up the corresponding paperwork (i.e. bill of lading with the shipping order) and enters the invoice information into the M-5 system to generate a cost per gallon and populate inventory quantities.

The City's previous financial system, FISCOL, maintained the product inventory and pricing. The old M-4 system also contained the transaction detail of the fuel issues, i.e. summary information sent and billed through FISCOL. The new M-5 system holds all transactional details, inventory quantities and pricing values. A manual log sheet is maintained at Currie, which parallels the M-5 system, with the Distribution Center listing order5s on one side and the Systems Integrator's corresponding entries on the other. This ultimately allows for a "three way match" reconciliation between the perpetual inventory, the electronic readings and the staking. This information is then sent on to Gary Dahl, Business Applications Manager.

With the M-5 system in place, fuel inventories are now essentially "real time." There are two programs in use here. The first is the regular "in-house" system where fuel is ordered, delivered, dispensed to users via system, prompts from four pieces of information (pump #, vehicle ID, personal ID and vehicle mileage/odometer readings). For the in-house system, when pumping gas, digital counters measure the amount of fuel dispensed. The counters then "communicate" with the M-5 system (real-time) via the ICU box w/ Fleet focus. Usages are summarized by Gary Dahl periodically. Previously this was possible in FISCOL however, there is no mid period billing schedule within COMPASS as of yet. The billing to departments in then accomplished by the M-5 system generating a JE and interfacing with COMPASS (i.e. account/fund/task).

Currently the monthly fuel charges/breakouts are sent out from Finance to only those departments who request it. IA contacted those departments who had 2008 fuel charges in excess of \$10,000 and the vast majority in this group were not receiving a report and conducting no periodic review of fuel charges, in fact some did not know a monthly report was available and thought it would be a significant asset in monitoring their fuel charges. In contrast, Lee Larson of Inspections, is one who requested & receives a monthly report which she reviews; the report also is forwarded to the Deputy for the division that has the most vehicles for review; finally she meets monthly with all division directors to review fuel expense in total.

CONCLUSIONS/RECOMMENDATIONS:

- 1) IA recommends the respective departments/divisions using fuel determine a point person for each and Finance then distribute the monthly department/division fuel report to those individuals for their respective departments for subsequent monitoring and review.
- 2) After learning only Hennepin County has a contract with the City to purchase fuel from the City, IA contacted the City's Risk Management Department and discussed. Risk Management further discussed the concern with Purchasing and it is our feeling that, because of potential liability and security issues, contracts with all participants in this program need to be created.

WRIGHT EXPRESS SYSTEM (WEX)

The second is a separate system, known as the WEX (Wright Express) system. A WEX card is similar to a gas credit card and are accepted at nearly all major gas retailers with WEX card charges going to a gas card statement

IA was originally informed there are approximately 60 WEX cards in operation, however upon putting together a master listing of the new WEX cards which came out within the last few months, it was noted that there were actually 81 cards, with 69 of these assigned to various MPD units. The remaining 12 were distributed among Minneapolis Fire (4), Public Works – ESD (6), Park Board (1) and CPED (1) however the CPED card was returned to Gary Dahl as there was no previous (expired) card found to turn in. Approximately 95% of WEX card users also have access to the "in-house" system but like the versatility and convenience the WEX card offers when out in the field or perhaps making a trip on City business.

For the WEX system the billing is done by Kathy Staehle (Finance). Accounts receivable is not yet set up in COMPASS. WEX sends Gary Dahl a monthly statement identifying users, details and summarizes by department. Vern Hyvare (finance) handles the revenue side with Kathy Staehle doing the payable. On an overall usage basis the WEX system "uses" 30,000-50,000 gallons annually while the "in-house" accounts for 1.8 to 1.9 million gallons.

The Wright Express System originated via a price agreement through the State of Minnesota in 2004. The contract between the State of Minnesota, WEX and the City of Minneapolis was renewed in 2008 for an estimated annual expenditure of \$100,000 to furnish fuel cards to Public Works Fleet Service through June 2009. WEX then receives a 2% fee from the vendor. The original invoice from WEX is paid out of a Fleet Services Division (FSD) fund, Gary Dahl sets up a distribution of the charge from WEX and forwards to Finance (Vern Hyvare) who generates the journal entry transaction charging the users.

IA selected the months of June and August 2008 for substantive testing and obtained those months billings from Finance. Using a judgement sample methodology IA selected 17 "atypical" items for further testing and review. These items selected included gas card use both outside the Minneapolis Metro area as well as outside Minnesota; multiple cards uses within minutes of each other; unusually large fuel purchases (i.e. 25 gallons); numerous small purchases (i.e. 3.5 to 5 gallons) and not for motorcycle use; and "creative" odometer readings. IA then contacted the individual responsible for each specific card in question.

In most cases a verbal explanation was provided, such as:

- MPD and MFD squads deployed to Iowa to assist in flooding recovery efforts, squad or city vehicles fueling at approximately the same time;
- K-9 training/certification in Detroit Lakes or Park Rapids;
- Surveillance van to New Jersey to be "redone" and subsequent training;
- A Denali used by the MPD has a 30 gallon tank

However an underlying problem here is that absolutely no receipts were retained/found for any of the test cases reviewed.

IA also noted the following:

- The Minneapolis Park Board had charges totally nearly \$500 in the month of June, the card was used several times in Iowa. Upon checking with Park Board personnel they had no knowledge of the card or who may have used it or why it was used in Iowa as they sent no one to Iowa regarding the flooding. Park personnel contacted Fleet Services asking who the card was assigned to and received no response. That specific card has now expired and the new WEX card is in the possession of Brian Williams at the Park Board.
- Upon conducting a verification of the master listing of WEX cards, IA was able to verify 80 of the 81 cards with an "owner". The sole card not accounted for was "assigned" to CPED. Upon contacting CPED personnel, neither Jack Kryst or Jeff Schneider had any knowledge of the card. IA contacted WEX and requested a recap of all charges to that card number. It was noted that the card was used 13 times in the Minneapolis area and that \$580 was charged that card is now also expired. CPED turned down receiving a new card and it was returned to Gary Dahl in Fleet Services.
- Again, no receipts were retained/found for any of the test cases reviewed. One
 department within the MPD (Narcotics/ Lt. Przynski) told IA they required all
 receipts, badge numbers, odometer readings, vehicle ID, etc at which point they
 reviewed them and forwarded them on to the MPD fleet manager, however none
 of those receipts for the test items could be located.

The MPD fleet manager told IA that when he issued the new cards he specifically told the unit commanders that they should track who has the cards, save receipts and monitor them for appropriate use, then forward them to the fleet manager once a month. They should also make sure that cards are turned in when a cardholder leaves or is transferred to another unit. By policy these rules have always been in place but adherence has been non-existent.

CONCLUSIONS/RECOMMENDATIONS:

The absence of receipts and the lack of documented subsequent verification of fuel expenditures leaves the WEX system fuel cards virtually wide open for potential abuse.

The current "ownership" of these cards is divided as follows: Minneapolis Police Department 85.2%; Public Works 7.4%; Minneapolis Fire 5.0%; Park Board 1.2% and 1.2% unused/ not issued (formerly CPED's).

Although 95% of WEX cards users also have access to the "in-house" fueling system, the WEX system is deemed valuable because it allows for fueling when not in the immediate vicinity of city fuel locations, for travel outside the metro areas. Additionally, the MFD has an airboat as well as MPD motorcycles which require premium fuel which the inhouse system does not "stock".

IA was informed by the MPD-Fleet Services manager that written procedures for the WEX system have not existed since the WEX system began in 2004. There are plans for formal written procedures to be prepared but currently only procedures related to the former SuperAmerica fuel system exist

RECOMMENDATIONS:

1. Written documented procedures for the WEX system need to be developed and followed. These procedures would entail the retention of those charges/receipts by appropriate department, personnel, and contain appropriate information such as badge #, vehicle #, purpose, etc.

BAR CODING OF VEHICLES

IA also reviewed the topic of bar coding of city vehicles. Even though he city has cameras, and requires the entry of various identification codes/pins/unit numbers etc and ultimately the recording of fuel usages/amounts/time & dates – there is no certainty that the vehicle being fueled is, in reality, a city vehicle.

Initially, IA spoke with Fleet Services Manager Gary Dahl regarding bar coding. Audit was told it was tried by the City in the late 1980's and had problems with faulty readers, keeping readers working in freezing weather, dirty windows on vehicles affecting the scanning, etc. Dahl added that bar coding is now somewhat "old school" although improvements in readers have been made in the past 20 years.

It's been discussed that the fuel management system could potentially go to a RF system (radio frequency) which would require a loop antenna on a RF transmitter, which, should confirm that the vehicle fueled is a city vehicle - depending on how "creative" people want to be. Under that scenario, the projected cost per car is in the \$10-\$12 range. For the 2,265 city vehicles and related units currently in use, that would be in the \$25k range.

On a request from the Audit Management Committee concerning the potential for fuel theft, IA obtained some preliminary cost estimates regarding bar-coding. IA initially contacted Barcode Automation Inc. out of Palm Beach, Florida who have products for the scanning of vehicles. They ultimately directed me to two local vendors: Trans Alarm in Burnsville and The Don Harstad Company out of Fridley.

Trans Alarm came back with an estimated verbal price of \$15k per reader box (seven would be needed) and \$3.30 per vehicle/unit to put on the bar code, for an initial total cost in excess of \$112k. IA was told they use these machines in Canada but they only function to -22 degrees, and the local vendor was told they shut them off in the winter, which pretty much defeats the purpose. Heated enclosures could be added for \$500-600 each. Overall, this process is much too costly.

The other vendor, Don Harstad Company, responded with a documented overall estimate of \$40,498. This included seven readers, 2,265 transponders, 50 external license plate tags and miscellaneous equipment.

These costs were then reviewed with both Dahl and John Scharffbillig, Director of Fleet Services who stated that, given the funding, they would prefer either a 1) "black box" or 2) "rings" system. They are very hesitant to spend any money on a bar-coding system because they feel those type systems do not perform in inclement weather and/or dirty environments.

In a black box system, the box is attached to the vehicle and communicates via radio frequency to each of the 13 ICU controllers. According to Gar Dahl, only about 1,000 vehicles/units would be black box compatible, plus there is also the problem of fuel issues to non-city vehicles (i.e. Hennepin County) which fuel with us.

The "ring" option is much less expensive – in the range of \$20 per vehicle. The technology is similar to the cards currently used by the City except these are permanently attached to or near the fuel filler on each piece of equipment. It is effectively a reflective antenna. The reader is then attached and wired to the fuel delivery nozzle so it is in very close proximity to the antenna. This system also requires add-ons to both the ICU's and each fuel delivery nozzle. In most cases these systems are set up so that if the dispenser hose moves away from the reflective antenna, the system shuts down, preventing delivery of fuel to a second unit.

In conclusion, neither Dahl nor Scharffbillig feel any of these systems are a cost effective solution to potential fuel theft, as they said it would take a huge amount of such a theft to make any of these options feasible.

	2006 Diesel	2006 Gas	2006 Total	2007 Diesel	2007 E-85	20 0 7 Gas	2007 Total	2008 Diesel	2008 E-85	2008 Gas	2008 Total	% Change 07-08
City Other	217	4,890	5,108	81	205	4,758	5,044	313	895	3,911	5,120	1.5%
Fire	94,835	23,142	117,977	93,837	4,699	20,165	118,701	91,658	7,910	17,072	116,640	-1.7%
Park Bd	66,484	129,867	196,351	75,693	•	136,534	212.227	71,319		129,164	200,483	-5,5%
Police	1,453	506,336	507,789	1,887	2,179	483,388	487,455	3,526	6,658	493,119	503,303	3.3%
PW FSD	247,461	10,913	258,374	243,873	59	10.578	254,511	216,242	249	9,056	225,546	-11.4%
PW Other	281,122	352,546	633,668	303,080	1,944	351,189	656,214	274,881	5,201	331,277	611,359	-6.8%
Reg Services		49,137	49,137		1,724	48,429	50,153		5,186	45,112	50,298	0.3%
Non City Grand Total	3,327 694,899	46,524 1,123,356	49,851 1,818,255	3,863 722,314	13,515 24,325	51,531 1,106,573	68,909 1,853,212	2,944 660,882	31,567 57,666	53,402 1,082,113	87,912 1,800,661	27.6% -2.8%

FISC PD (All)

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CONCLUSIONS/RECOMMENDATIONS:

1) IA recommends the respective departments/divisions using fuel determine a point person for each and Finance then distribute the monthly department/division fuel report to those individuals for their respective departments for subsequent monitoring and review.

Fuel transaction detail is available within our fuel management system to which finance staff has access. In some cases departments, such as Park Board, Regulatory Services, Police and Fire, have direct access into the M5 application, to monitor not only their fuel usage but all aspects of their feet expenditures. In other cases such as Hennepin County, Head Start, and the School Bd, transaction detail is sent to them with their bills. Prior to the implementation of the COMPASS financial system detail fuel reports were distributed to all using departments. In an effort to reduce workloads by finance staff and efforts to automate transaction flow it was decided to quit automatically sending this detail.

2) After learning only Hennepin County has a contract with the City to purchase fuel from the City, IA contacted the City's Risk Management Department and discussed. Risk Management further discussed the concern with Purchasing and it is our feeling that, because of potential liability and security issues, contracts with all participants in this program need to be created.

Using the Cities contract with Hennepin County, as a template, we will move towards establishing contracts with other none City users.

1. Written documented procedures for the WEX system need to be developed and followed. These procedures would entail the retention of those charges/receipts by appropriate department personnel, contain appropriate information such as badge #, vehicle #. purpose, etc.

Fleet will take the lead on developing a procedure for the city on the use of WEX cards by City of Minneapolis personnel. To include the items listed in the audit report





Finance Department

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RECOMMENDATION:

1) INTERNAL AUDIT RECOMMENDS THE RESPECTIVE DEPARTMENTS/DIVISIONS USING FUEL DETERMINE A POINT PERSON FOR EACH AND FINANCE THEN DISTRIBUTE THE MONTHLY DEPARTMENT/DIVISION FUEL REPORT TO THOSE INDIVIDUALS FOR THEIR RESPECTIVE DEPARTMENTS FOR SUBSEQUENT MONITORING AND REVIEW.

Finance Response:

In 2008 we did not have reports available until August as the data was not available from the Fleet M-5 subsystem until then. From August on we sent out summary reports to City departments with the detail available if requested. For external billings, detail is always sent.

For 2009 we are sending out the summary reports with detail available. We plan to place the detail in a folder on the common drive so that departments can have access.

Chuck Elliot Controller